TOKYO GAZETTE

A MONTHLY REPORT OF CURRENT POLICIES, OFFICIAL STATEMENTS AND STATISTICS

CONTENTS

IMPERIAL MESSAGE 1
(*Granted on the Occasion of the Opening of the Imperial Diet, September 4, 1937*)

OVERSEAS ELECTRIC COMMUNICATIONS
—Their Development and the Present Situation— 2
(*Department of Communications*)

ON THE EXPORT COMPENSATION LAW 11
(*Bureau of Foreign Trade*)

THE SITUATION IN CHINA 19
1. Advance of the Imperial Army
(*Press Section, War Department*)
2. The Imperial Navy in Action
(*Publicity Bureau, Navy Department*)

THE 72ND SESSION OF THE IMPERIAL DIET
—Ministerial Addresses of September 5, 1937— 35

EMERGENCY LEGISLATIVE MEASURES INCIDENTAL TO THE CHINA AFFAIR 44
(*Bureau of Information, Prime Minister's Department*)

No. 3 **September 1937**

Published Monthly by the Foreign Affairs Association of Japan

The TOKYO GAZETTE is published monthly by the Foreign Affairs Association of Japan under the supervision of the Bureau of Information, Prime Minister's Department. Its purpose is primarily to supply information concerning the nature of problems being confronted today by the Japanese nation as a whole, and of the governmental steps being taken to solve these problems.

The material in the TOKYO GAZETTE is selected mainly from the *Weekly Report*, edited by the Bureau of Information. The accuracy and comprehensiveness of data presented in the *Report* is fully established. For the benefit of students of Japanese affairs, the TOKYO GAZETTE is endeavouring to maintain these qualities in the hope that its publication will eliminate unfortunate misunderstandings and thus contribute to world peace and international goodwill.

Printed in Japan

IMPERIAL MESSAGE

Granted On the Occasion of the Opening of the 72nd Session of the Imperial Diet
—September 4, 1937—

We hereby open the Imperial Diet and address Ourself to the members of the House of Peers and of the House of Representatives.

It has been Our constant desire that Our Empire and the Republic of China should work in unison in order to ensure the stability of East Asia, and thus attain the common prosperity of Our respective nations. The Republic of China, however, failing utterly to understand the true intentions of Our Empire, indulged in wilful acts of provocation, giving rise at last to the present state of affairs. This is indeed a source of regret to Us.

Now in the face of manifold difficulties, Our armed forces are discharging their duty with loyalty and valour, to no other end than that of urging the Republic of China to reflect on its attitude, so that peace may be speedily restored in East Asia.

It is Our wish, in view of the present extraordinary situation, that Our subjects, united in their faithful service to the State and in their devotion to the Throne, will seek to achieve the purpose of the Empire.

We have instructed the Ministers of State to introduce to the Imperial Diet the urgent additional budgetary and legislative bills. We command ye to strive, in conformance with Our wish, to perform to the fullest measure your appointed task of harmonious deliberation and collaboration.

OVERSEAS ELECTRIC COMMUNICATIONS

—Their Development and the Present Situation—

DEPARTMENT OF COMMUNICATIONS

THE proclamation of the Law authorizing the amendment of the Law Concerning the Organization of the Japan Wireless Telegraph Company Limited, on April 2, 1937, has epoch-making significance with regard to Japan's policies toward overseas electric communications. The new Law was approved at the 70th session of the Imperial Diet.

In the present age of close international relations, electric communications—the telegraph, telephone, radio, and telephotograph—as the international means of high speed communication, function somewhat as the nervous system of the world. Being fully utilized throughout the entire range of military, diplomatic, commercial and social activities, they make life colourful, exciting and rich.

Among the many aspects of electric communications, those of diplomacy, commerce and dissemination of information are best known and most publicized. In the field of modern diplomacy, to begin with, the position of electric communication is all but absolute. Without international telegraphic and telephonic services no Government could continue, as is its custom, to carry on important communications with its overseas representatives.

In the field of commerce also, the activity of international trade is due, in no small degree, to the development of this phase of overseas communications. Rates of exchange, quotations for commodities and stocks in the principal markets of the world, and other basic matters with regard to industry, trade and finance are immediately reported and published in newspapers, creating waves of supply and demand which constitute modern world economy. International commerce is the leading customer of worldwide telecommunication services in respect to its volume of communications, inasmuch as it accounts for 80 per cent of the total number of foreign telegrams and 75 per cent of the total number of international telephonic messages. The amount of money paid for these services is by no means insignificant; it represents one per cent of the grand total of Japan's entire trade.

The communication of information is of great importance. Fresh and vivid information can be sent over seas and across continents

within a few hours' time by means of press and radio news. Such activities in international information services, which prove to be an important factor in forming public opinion, in stimulating movements of world economy, and in directing international politics, depend entirely upon the function of the network of overseas electric communications. The fact that international relations are at present becoming increasingly closer connected makes this phase of telecommunication all the more essential as the means of transmitting information. The Powers, therefore, are consistently collecting information on the one hand and broadcasting their authentic news on the other, through their own overseas electric communication network. Likewise, Japan, in addition to transmitting thirty-one news broadcasts with a total of 8,000 words daily, is broadcasting over the radio news and music to all corners of the world as a daily overseas programme.

The accomplishments of this phase of overseas communications are by no means confined to the external affairs of nations. Today, their internal affairs, politics, industry, and culture, are not immune to international influences. The fact that the development of these phases of national life depends, in no small measure, upon the existence of a well-equipped network of overseas electric communications needs no explanation. The private and social life of individuals, which is keeping pace with other aspects of modern life in matters of international communication, may also be added to the list of the fields in which a means of high-speed communication is called for. The most vital one, however, is the use of this modern system of telecommunication in time of war as an important means of carrying out military operations, collecting information, and establishing connections.

Thus, international electric communication has come to constitute the backbone of international relations. In particular, in a country such as Japan, which is situated in a remote corner of East Asia, and from which oceans must be conquered in order to reach other countries, the place of overseas electric communications is of especial importance; measures for their promotion constitute today one of the most urgent national policies.

Development of Overseas Electric Communications and Submarine Cables

International telecommunication systems are classified, acccording to function, into the telegraph, telephone, telephotograph, and broadcasting wireless telephone, which is commonly called the radio;

and, according to instrument, they are classified into the wire—submarine cable—and the wireless.

Historically, the submarine cable was the earliest system introduced into Japan. The introduction of the wireless telegraph was next in order, while the wireless telephone, telephotograph, and radio, by means of which direct communications between the Island Empire and the continents are effected, have been in service but these ten years, as they are products of modern wireless science.

The first introduction of the submarine cable into the world communication system dates from the year 1850, eighty-seven years ago, when Great Britain laid a cable across the English Channel connecting the British Isles with the European Continent. This was soon followed by the laying of cables across the Atlantic, Indian and Pacific Oceans, a development which is inseparably bound with the imperialistic expansion of the Western Powers, which took place in the 19th century in forms of acquisition of colonies, territorial aggression in the East, competition for supremacy over the seas, and other activities.

As the basis for carrying out her overseas policies, Great Britain first succeeded in spanning the Atlantic Ocean with long-distance cables in 1866, when the British Isles and the American continent were linked. At a later date cables were laid between England and Singapore via the Mediterranean Sea, then on to India. Great Britain thus ensured her hegemony in the realm of cable communications, which proved, as shown in history, a great advantage in her military, diplomatic and trading activities.

The United States too has long been operating her many cable lines to the European Continent, to the West Indies, and to South America, facilitating thereby the execution of her Pan-American policies. Furthermore, she extended her line, in 1903, to the Orient across the Pacific Ocean as the basic step in her Far Eastern approach. Accordingly, 87 per cent of world submarine cables, with a total mileage of 360,000, are today under British and American control, and all other Powers must depend upon those lines for their cable communications. It is no exaggeration to say that Anglo-Saxon supremacy in the modern world has been due, in large measure, to this wise and far-sighted communication policy.

Let us now turn to the process of development in Japan's foreign communications. We find that these began in 1871 with a cable service for which the Great Northern Telegraph Company had, in the previous year, obtained the right to land its cable at Nagasaki. During this period the same company constructed an aerial line from Northern Europe to Vladivostok via Siberia. Thereafter, for more

than thirty years, telegraphic messages between Japan and other parts of the world were being exchanged through the Nagasaki-Vladivostok and Nagasaki-Shanghai lines of this company. True, these cable lines contributed, in no small measure, to the development of Japanese culture, but it was far from satisfactory that overseas telegraphic communications, which require speed, accuracy, and secrecy, should depend upon transmission lines in possession of a foreign concern.

In 1900, therefore, the Japanese Government, in cooperation with the American-owned Commercial Pacific Cable Company, laid a cable between Tokyo and Guam, which opened a new road for foreign communications through the trans-Pacific line of that company. This was the beginning of overseas connections in Japan's telecommunications by means of her own lines. It was, however, but an insignificant beginning in that Japan was in actual possession of no more than a cable between Tokyo and the Ogasawara Islands[1]. Dominated, as it was, by foreign interests, Japan was not in a position, in those days, to construct a great network of overseas communications, and had to be contented with a few short-distance cables under her control such as between Taihoku[2] and Foochow, Nagasaki and Shanghai, and Sasebo[3] and Tsingtao.

Emergence of Wireless Telegraphy and Establishment of Wireless Policy

As the national significance of submarine telegraph cables was widely realized, the Powers invariably became eager to hasten additional construction. They found, however, that this was an unfeasible task under the state of affairs which then prevailed, as a vast amount of capital was called for; places to land the cables on the way were required, making likely the creation of intricate international problems; and new lines had to compete with the existing lines, which was next to impossible. This situation, which seemed to ensure indefinitely the Anglo-Saxon supremacy over the cable communications of the world, was finally overcome through advancement in human intellect, which rendered possible the emergence of wireless telegraphy.

Wireless telegraphy for practical communication purposes was first devised in 1896, forty-one years ago, by Marchese Guglielmo Marconi, brilliant Italian inventor. It was, however, the World

1. A group of islands in the North Pacific, 529 miles south of Yokohama.
2. A city in the island of Formosa, the seat of the Government-General of Taiwan.
3. A naval port in the island of Kyushu, not far from Nagasaki.

War that promoted its epoch-making growth. During the War, those belligerents which depended upon the cables of the other Powers for their communications, being subjected to relentless censorship of messages, felt keenly the necessity of finding means other than the cable for establishing autonomy in communications, thereby safeguarding information, propaganda, and strategic activities. Those in possession of their own cables too were anxious, to a similar extent, to find some such means, for their lines had frequently been severed. Under these circumstances it was but natural that wireless stations of sufficiently large scale to meet such requirements should be erected in various parts of the Western world. What accelerated this trend for the utilization of the wireless to the point of its competition with the cable has been the development of short-wave length wireless telegraphy, which is economical and, at the same time, efficient.

This phase of development in world wireless telegraphy has not left Japan as an exception. In 1916, wireless connection was made with the Hawaiian Islands by means of the Funabashi Station, which was operated under the supervision of the Navy Department. Then in 1911 the Iwaki Station was erected in Fukushima Prefecture[4] with a view to improving communication with the American continent and to starting direct communications with Europe, the Asiatic continent and the South Sea islands. Yet this first step in the policy of establishing autonomy in overseas communications was not followed by consistent measures for achieving the purpose, due in part, to the demand of an enormous amount for the construction fund, which cost characterized the long-wave length system that then prevailed, and, in part, to the financial limitations of the time.

Meanwhile, post-war expansion of wireless facilities was vigorously carried out by the Powers with the result that 111 out of the 134 wave lengths possible for use at that time were demanded by the five leading countries. If matters were to be left as they stood, the rights of use of electric waves were in danger of being usurped by Powers other than Japan. In the face of this predicament, the Japanese Government, in consideration of the conditions of public finance, resorted to the utilization of private capital for realizing its wireless policy. Accordingly, the Japan Wireless Telegraph Company, Limited was established under a special law in 1925, for the purpose of constructing wireless telegraph plants to be used by the Government. Thus, Japan effected wireless connections with other parts of the world, realizing an independent overseas communication policy.

4. A prefecture on the Pacific coast, situated to the north of Tokyo.

In 1928, direct communication service with America was opened, which was followed successively by the establishment of the station for the European service in Nagoya in 1929, and of the East Asiatic and South Sea services in Tokyo in 1931. Consequently, world-wide direct connections by wireless telegraphy have steadily been established, and Japan is now operating the following circuits:

With America (5 circuits).....	the United States (2 circuits), Mexico, Brazil and Argentina.
With Europe (9 circuits)	Great Britain, France, Germany, Switzerland, Poland, Italy, the Netherlands, the Soviet Union, and Norway.
With East Asia and the South Seas (8 circuits)	the Philippines, the Netherland East Indies, India, Siam, French Indo-China, Syria, Shanghai, and Tientsin.

To these, the Ochiishi[5]-Petropavlovsk, Truk-Rabaul, Taihoku-Manila, and Taiwan-Hongkong connections (4 circuits) and the Japan-Manchoukuo connection (5 circuits), all of which use plants constructed by the Government, must be added in order to complete the list of circuits operated by Japan.

In fact, Japan's overseas wireless connections are maintained today by 31 circuits, making possible direct communication with all parts of the world, except Africa and Australasia.

A fact worthy of special mention in this connection is that the development of wireless communication in Japan, besides ensuring autonomy in her overseas communications, has, in a marked degree, decreased her payments with respect to international messages, contributing, to a considerable extent, to an improvement in her balance of international payments. This concomitant but no less significant result can be accounted for by the fact peculiar to the Japanese situation that in case of wireless messages only 50 per cent of the charges, instead of some 90 per cent as in the case of cable messages, has to be paid overseas, and that, in the former case, no overseas payment is necessary when the numbers of dispatches and receipts are the same. In the latter case, all messages to and from Japan must be paid abroad at the same rate. Since 55 per cent of her foreign telegrams are exchanged today by means of the wireless, Japan's overseas payments have naturally decreased considerably. However,

5. A town in the eastern corner of Hokkaido.

on account of the loss from exchange Japan is still paying 11,000,000 yen in this respect. If the wireless is utilized to its fullest extent, she may recover far more in her overseas payments. Furthermore, since the increase in use of the wireless decreases overseas payments and the loss from exchange, such use enables the Government to lower charges for messages. The recent steps in the lowering of charges, which have been successively carried out, have been made possible simply on that account. It may be said, therefore, that the utilization of the wireless for all possible communication purposes not merely decreases the nation's overseas payments but also brings about the lowering of charges, both of the wireless and the cable, to the personal benefit of those who utilize both systems.

Development of the International Wireless Telephone

The international telephone actually used in communications abroad dates from the year 1927, just ten years ago. It was on January 17th of the same year that the service between the United States and Great Britian was opened. In Japan a special company, The International Telephone Company, was established in December, 1932, for the purpose of constructing plants for the operation of wireless telephonic connections with overseas territories and with various parts of the world. Consequently, the service between Japan Proper and Formosa was opened in June, 1934, which was followed two months later by the Japan-Manchoukuo service. During the same year were effected connections with the Philippines, the Netherland Indies, and the United States and in the following year, those with Great Britain and Germany. Thus connections with 30,000,000 telephones in 41 countries, which represent approximately 90 per cent of the total number in the world, have now been completed, with the establishment of connections with Shanghai, Indo-China, Siam, and Argentina during the last two years.

The International Electric Communication Company, Limited

We have already noted that overseas electric communications in Japan, which lagged behind at the outset, have made amazing advances literally by leaps and bounds within the last ten years, in respect both to the telegraph and to the telephone. The present situation, in its scope and efficiency, is a new and significant development as compared with its insignificant form in the early days. Japan has now attained a position of world significance in the field of international communications. In view, however, of the complex international situation which prevails today, a development such as overseas communications, which constitute a vanguard of forces

working for overseas expansion, cannot be permitted to remain static, in spite of its present progress and accomplishments. From the point of view either of the world-wide expansion of Japanese trade and culture or of the efficient dealing with foreign affairs and defence measures, it is a matter of paramount importance that telecommunication, in all its aspects, including the overseas telephone, telegraph, telephotograph, and radio broadcasting, should make further strides towards a new phase of progress.

Under these circumstances, it has been found that for the two institutions relating to this important aspect of national policy, the Japan Wireless Telegraph Company, Limited and the International Telephone Company, Limited, to operate side by side as separate bodies is not in keeping with the latest developments in wireless science, in which the technical adaptability between the telegraph and telephone has been established, or with the demand of the times which calls for the utilization for practical purposes of the international telephotograph, which is, technically, of an intermediary nature between the telegraph and telephone. In the light, furthermore, of the urgency of the synthesized development and operation of all the phases of overseas communications, it has been felt imperative that some definite steps should immediately be taken for coping with the situation. Such steps, however, for synthesized development and control would be inadequate if they were not carried out on a broader basis of the whole of electric communication, not excluding the cable, and on a stronger foundation with an increased capital fund.

The Government, therefore, worked out a measure for realizing a development, epoch-making in scope and appropriate under the existing state of affairs, of this important and latest phase of overseas communication, by establishing a so-called equipment-supplying company for all the types of overseas electric communication activities, including the cable, the telegraph, telephone, telephotograph, and radio broadcasting. As a result, steps were taken for the merging of the afore-mentioned two companies, forming a single corporation with the name International Electric Communication Company, Limited. For the same purpose the Law authorizing the amendment of the previous legislation pertaining to the Japan Wireless Telegraph Company, Limited was approved at the 70th session of the Imperial Diet, and promulgated on April 2, 1937. Thus, the Law concerning the Organization of the Japan Wireless Telegraph Company, Limited will be superseded by the Law Concerning the Organization of the International Electric Communication Company, Limited, making ready for the birth of the new concern.

At present, Japan's direct wireless connections extend in 31 directions by means of the wireless telegraph, and in 10 directions by means of the wireless telephone. In a few years, however, the plants of the new institution will enable her to increase connections in respect to the telegraph by 22 directions, and in respect to the telephone by 11 directions. Regular telephotograph services with East Asia and Europe will also be put into operation soon. The Japanese Empire will then, through a complete system of telecommunications, be placed in direct contact with all other parts of the world.

ON THE EXPORT COMPENSATION LAW

BUREAU OF FOREIGN TRADE

I

AIMS AND OPERATION OF THE LAW

ONE of the most important and effective measures for ensuring the increase of Japan's foreign trade lies in facilitating exporters to finance their export business. A peculiar feature of the export trade of this country is that, in its growth and in the nature of its export articles, Japan has always had to seek new markets in which, more often than not, no Japanese trading firms or branches of Japanese exchange banks are located. In such circumstances it has not always been easy to ascertain the credit standing of foreign customers, and, additionally, transactions have had to be effected in many instances even without the guarantee of letters of credit. Logically, therefore, exchange banks became chary of buying export bills drawn on those markets for fear of incurring losses through insolvency of the importers. Thus the flow of export credits has tended to be greatly impeded, much to the detriment of growth in Japan's foreign trade.

In order to obviate such hindrances to foreign trade the Japanese Government has undertaken to compensate the exchange banks for the losses they might incur from the non-payment of the export bills bought by them. In this way the exchange banks have been induced to buy export bills without any fear of running risks. The method of this compensation took the form of the Export Compensation Law, which was carefully framed and put into operation in August, 1930. Under this law, the Government each year concludes compensation agreements with exchange banks whereby it undertakes to compensate these banks within the bounds approved by the Diet and up to the extent prescribed in the Law in connection with purchases of export bills drawn on regions designated by the Minister of Commerce and Industry.

The Export Compensation Law was enacted primarily with the object of exploiting new markets for Japanese export goods; the sphere of operations first designated by the Government included Central and South America, Asia Minor, and Russia. Other regions have subsequently been added to the above territories, so that at present the benefits of the Law are extended to nearly all new markets.

Moreover, the sums approved by the Diet to be applied to the compensation have been raised each year; the amount for 1937 was 21,469,000 yen in comparison with 938,000 yen for 1930.

The total amount of bills bought by exchange banks under this Compensation Law increased steadily until the aggregate amount for the years under its operation up to the end of 1936 reached 117,954,000 yen. The annual amounts of bills bought under the Law have been as follows:

(In thousands of yen)

1930	1,902	1934	27,625
1931	4,956	1935	22,721
1932	9,425	1936	30,305
1933	21,020		

It is obviously difficult to produce statistical data to show the part played by the indemnity system in the development of Japan's export trade. When, in the course of trading, the credit standing of foreign customers in a certain region is found satisfactory, as is commonly the case, no further use is made of the compensatory facility in connection with the customers of that region, but it will be applied in dealing with new customers in other territories. Hence, in reality, the system may be credited with having brought in new business of a far greater value than is suggested by the figure given as the grand total of bills purchased under the Law.

II

Chief Points of Recent Amendments

The imperative need of expanding Japan's trade, which is so essential for the growth of the economic and financial power of the nation, called for intensive operation of trading facilities such as those promoted by the Export Compensation Law. Among exchange banks and exporters there has also been a strong demand for enhancement of the State guarantee for export credits. These factors led to the promulgation on March 31, 1937, of Law No. 22 amending the Export Compensation Law, and to the issuance on June 1, 1937, of Ordinance No. 5 of the Department of Commerce and Industry, revising the regulations governing the operation of the Law. Here are given brief summaries of the amendments.

(a) Raising the Maximum Limit of Compensation

As a rule, Government compensation does not cover the whole amount of the loss sustained by a bank. A maximum limit is set beyond which compensation may not be extended; for, otherwise, the danger of encouraging speculative exports arises, which might

eventually defeat the purpose of the legislation.

Two different limits were originally prescribed; namely, Class A compensation contracts allowing 70 per cent of the loss, and Class B contracts allowing 60 per cent. Inasmuch as these limits are an important factor in determining the value of the system, the maximum limits have now been raised by 10 per cent, bringing the actual limit in the two classes of contracts to 80 per cent and 70 per cent, respectively.

(b) Reduction in Rate of Charge on Compensation

The rate of charge on the compensation is another determining factor bearing on the successful working of the plan. While this charge on the compensatory amount is paid by the bank, the burden of the charge ultimately falls upon the exporter of the goods. Hence the advisability of keeping this charge as low as is feasible.

In the Class A contract, the bank receiving the compensation must, unless special approval is obtained from the Minister of Commerce and Industry, exercise forthwith the right of recourse and other rights pertaining to the bills bought; and, after deducting from the sum so obtained the amount of interest accruing after the due date of the bill and the expenses defrayed in the exercise of the rights in respect of the bill, the bank shall pay to the Government 80 per cent of the remaining sum. In the Class B contract, the bank is not required to exercise the right of recourse on the bill against the export. In Class A contracts, again, compensation is awarded primarily for the purpose of financing exports, and, consequently the Government expects the refunding of the sum given in compensation. Compensation in the Class B category assumes the nature of guarantee of export credits, and the repayment of the compensatory money is not necessarily binding. For this reason, compensation charges are lower in cases of Class A contracts in comparison with those of Class B contracts, which latter agreements take on the character of insurance premiums.

An additional point to be noted is that in both Class A and Class B contracts, charges on the compensation are not uniform, but vary according to the nature of the bills. Charges alter on documentary bills, promissory notes or on any other bills, and, on documentary bills according as they are D/A (documents against acceptance) bills or D/P (documents against payment) bills, since they differ in the degree of risks involved. The recent reduction in charges is 20 per cent in the case of Class A contracts, and 30 per cent in that of Class B contracts. The changes are given in the accompanying table.

Kinds of Bills	New Compensation Charge	Old Compensation Charge	Reduction in percentages
Documentary Bills Class A D/A	0.27 *sen* per diem per 100 *yen* (1% p.a.)	0.34 *sen* 1.25% p.a.	20%
D/P	0.1 *sen* per diem per 100 *yen* (0.4% p.a.)	0.13 *sen* 0.5% p.a.	20%
Documentary Bills Class B D/A	¥1.40 (1.4% per mensem) per 100 *yen* for the first 30 days. For the ensuing period 0.46 *sen* per diem (0.14% per mensem)	¥2.00 (2% per mensem) 0.67 *sen* (0.2% per mensem)	30%
D/P	¥0.56 (0.56% per mensem) per 100 *yen* for the first 30 days. For the ensuing period 0.23 *sen* per diem (0.07% per mensem)	¥0.80 (0.8% per mensem) 0.33 *sen* (0.1% per mensem)	30%
Promissory Notes Class A	0.21 *sen* per diem per 100 *yen* (0.8% p.a.)	0.27 *sen* (1% p.a.)	20%
Class B	¥0.70 (0.7% per mensem) per 100 *yen* for the first 30 days. For the ensuing period 0.46 *sen* (0.14% per mensem)	¥1.00 (1% per mensem) 0.66 *sen* (0.2% per mensem)	30%
Documentary Bills Class B D/A	Standard rate 16.8% p.a. Additional rate 1.68% p.a.	(old rate 24% p.a.) (,, ,, 2.4% p.a.)	
D/P	Standard rate 6.72% p.a. Additional rate 0.84% p.a.	(,, ,, 9.6% p.a.) (,, ,, 1.2% p.a.)	
Promissory Notes Class B	Standard rate 8.4% p.a. Additional rate 1.68% p.a.	(,, ,, 12% p.a.) (,, ,, 2.4% p.a.)	

(c) Compensation for Losses Arising from Exchange Restrictions in Foreign Countries

Today, most foreign countries which offer [markets for Japanese goods are adopting exchange restrictions, as the result of which considerable difficulty is experienced in the settlement of accounts for Japan's exports, entailing considerable hindrance in the flow of credits. It is only appropriate, therefore, that export compensation measures should be applied to this field to remove these obstacles. The method usually followed in awarding compensation has been, in the case of documentary bills with the D/P clause, that the documents may not be delivered till after the payment. It happens very often, however, that the bills are dishonoured on account of exchange restrictions even though the importers are quite solvent and willing to pay. In such cases it has been customary to deliver the documents on condition that the importers put up an amount equivalent to the amount of the bill as a guarantee of payment on the bill as soon as the licence of their government is obtained. In view of this situation, the procedure of awarding compensation has been so modified that, where the payment of the bill has been rendered temporarily impracticable due to exchange restrictions, the documents may be delivered, in the case of D/P bills, even prior to the payment, with the approval of the Minister of Commerce and Industry. The application for compensation, in this instance, may be filed without waiting for the disposal of the collaterals, with the amount defaulted, less any sums previously received from the payee, considered as losses.

Furthermore, the banks have hitherto had to exercise without delay their right of recourse in respect of the whole amount in the case of Class-A compensation contracts, and in respect of three-tenths of the amount in the case of Class-B contracts, as were also other rights pertaining to the bill. In the case of default due to exchange restrictions, however, the exercise of these rights may, with the approval of the Minister of Commerce and Industry, be waived temporarily. In fact, the compensation awarded in this case may be regarded as a temporary advance, and when the bank refunds it subsequently an additional charge of 0.55 sen per diem is made on the sum of compensation. Apart from the difficulties arising from exchange restrictions, an equally convenient handling of the situation is made possible by deviating from the rule, for example, with regard to the delivery of the documents, to the application for compensation prior to the disposal of the collaterals, or to the exercise of the rights pertaining to the bills. In these matters, deviation from the rule is permitted with the approval of the Minister of Com-

merce and Industry to ensure an effectual operation of the system.

(d) Compensation in respect of Promissory Notes and Bills Other than Documentary Bills

Payments for goods shipped to Soviet Russia are effected, not through the customary method of documentary bills, but by means of promissory notes issued by the Soviet Trade Commissioner in Japan. Hitherto, in the case of exports to Soviet Russia, such promissory notes were bought by the bank, which received compensation for any losses incurred from the transaction. Additionally, when building materials and other heavy industry manufactures are exported to countries other than Russia on long-term credit, payment is usually made by means of promissory notes or bills other than documentary bills. In view of the fact that Japanese exports consist mostly of products of light industry manufactures, any assistance accorded to exports of manufactures of heavy industries would serve the good purpose of encouraging the growth of heavy industries within the country. With a view to facilitating exports of manufactures of this description on long-term credit, a revision in the Export Compensation Law has been effected whereby the compensation may be granted in respect of promissory notes and bills other than documentary bills. The maturity of the bills so drawn is fixed at five years and the destinations of the shipments other than the Soviet Union have been designated by the Department of Commerce and Industry as follows :—

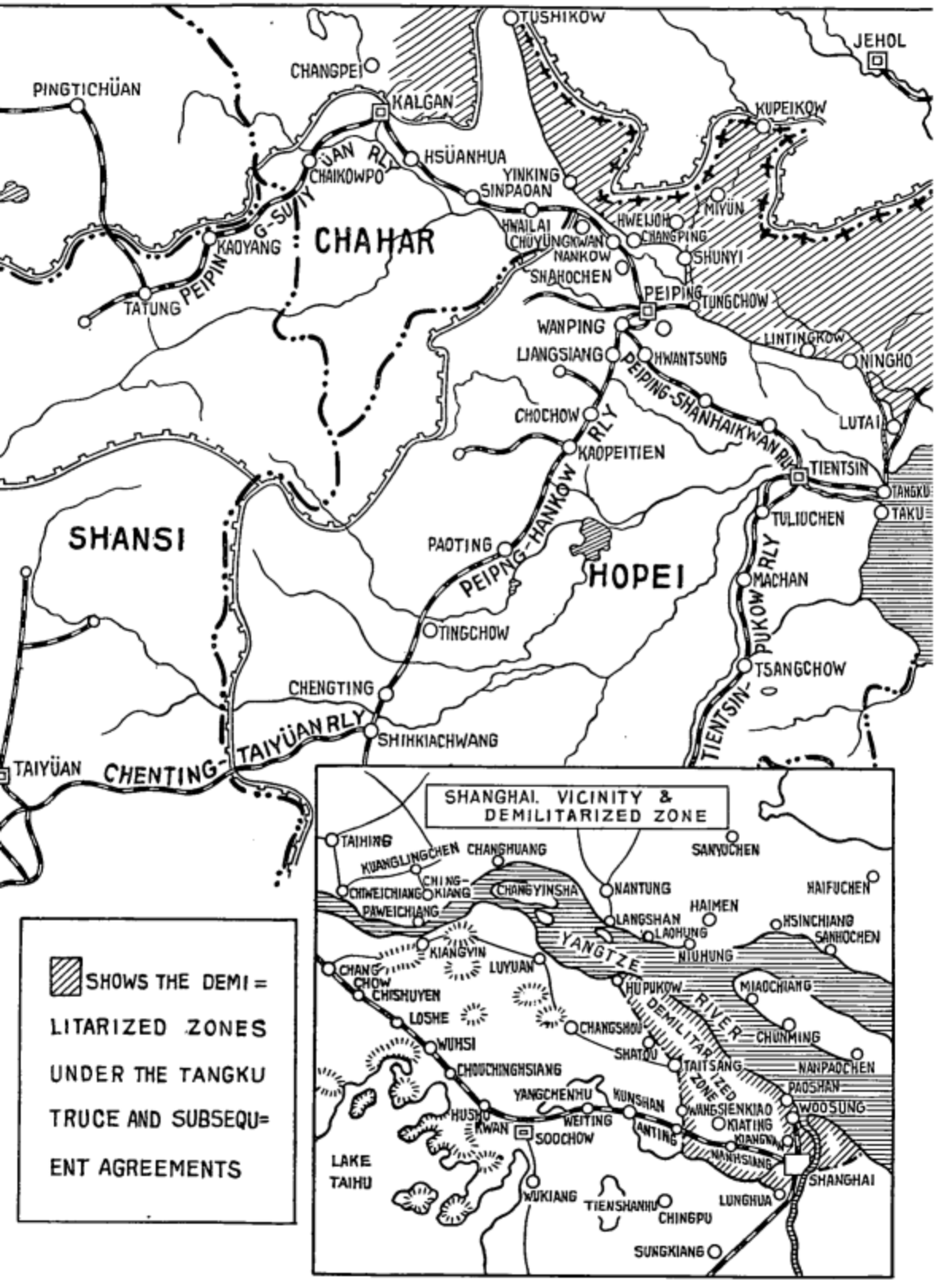
China ; Siam, the Straits Settlements and the Dutch East Indies ; Afghanistan and Iran ; Central and South American countries.

As to the articles of export, the designation by the Department of Commerce and Industry, made public on June 1, 1937, by Proclamation No. 59, includes the following : railway-coaches and their parts and accessories ; motor-cars, motor cycles, and their parts and accessories ; vessels, aeroplanes, and their parts and accessories ; machinery, machine-tools, and their parts and accessories ; constructional materials for use in building railways, bridges, roads, water-works, houses, broadcasting stations, and transportation and communication works.

It is quite possible that Japan needs these heavy industry manufactures for her own use, but it is equally true that the encouragement thus given to their exportation will rebound at once to the development of her industry and to the fostering of growth in her foreign trade. However, to ensure a proper adjustment between internal requirements and exports, the Law prescribes that exporters are ordered to apply for the approval of the Minister of Commerce

and Industry as to the items of export and the drawer and drawee of the bills.

(e) As has already been stated, the "compensation bills" are to be limited to those drawn against shipments of goods to regions designated by the Minister of Commerce and Industry. Formerly these specified regions comprised practically all new markets, but the list was greatly entended by Proclamation No. 57 of June 1st, to cover the whole world except the United States, Great Britain, Germany, France, and Italy.


TUSHIKOW
JEHOL
CHANGPEI
PINGTICHÜAN
KALGAN
KUPEIKOW
HSÜANHUA
YINKING
SINPAOAN
MIYÜN
HWEIJOH
CHANGPING
SHUNYI
CHAHAR
KAOYANG
HWAILAI
CHUYUNGKWAN
NANKOW
SHAHOCHEN
PEIPING
TUNGCHOW
TATUNG
WANPING
LINTINGKOW
NINGHO
LIANGSIANG
HWANTSUNG
CHOCHOW
LUTAI
KAOPEITIEN
TIENTSIN
TANGKU
TAKU
TULIUCHEN
SHANSI
PAOTING
HOPEI
MACHAN
TINGCHOW
TSANGCHOW
CHENGTING
SHIHKIACHWANG
TAIYÜAN
SHANGHAI VICINITY & DEMILITARIZED ZONE
TAIHING
KUANGLINGCHEN
CHANGSHUANG
SANYÜCHEN
CHING-KIANG
CHWEICHIANG
CHANGYINSHA
NANTUNG
HAIFUCHEN
PAWEICHIANG
HAIMEN
LANGSHAN
LAOHUNG
HSINCHIANG
SANHOCHEN
KIANGYIN
YANGTZE
NIUHUNG
LUYUAN
CHANG CHOW
HUPUKOW
MIAOCHIANG
CHISHUYEN
DEMILITARIZED ZONE
RIVER
LOSHE
CHANGSHOU
CHUNMING
WUHSI
SHATOU
TAITSANG
NANPAOCHEN
CHOUCHINGHSIANG
YANGCHENHU
KUNSHAN
PAOSHAN
WANGSIENKIAO
WOOSUNG
HUSHU
KWAN
WEITING
SOOCHOW
ANTING
KIATING
KIANGWAN
NANHSIANG
SHANGHAI
LAKE TAIHU
WUKIANG
TIENSHANHU
LUNGHUA
CHINGPU
SUNGKIANG
SHOWS THE DEMILITARIZED ZONES UNDER THE TANGKU TRUCE AND SUBSEQUENT AGREEMENTS

THE SITUATION IN CHINA

I

—ADVANCE OF THE IMPERIAL ARMY—

PRESS SECTION, WAR DEPARTMENT

AN outline of the campaign of the Japanese troops for clearing the Peiping and Tientsin area of the Chinese 29th Army was given in the August issue of the TOKYO GAZETTE. Subsequent operations of the Japanese Army in North China, including the Peiping and Tientsin area, Chahar, Shansi and Suiyüan provinces, and the Shanghai sector will be summarized here.

Along the Peiping-Suiyüan Railway

The Japanese forces operating along the Peiping-Suiyüan Railway started an attack on the Chinese troops near Nankow Station at dawn on August 12th, and drove them away from their positions. The right wing of the Japanese troops occupied the Huyu district, while the left wing, at 6 o'clock on the same evening, started an offensive on Nankowchen and the heights to its west. The Japanese reduced Nankowchen at 8 o'clock.

At 4 : 30 o'clock, the following afternoon, the Japanese troops captured the heights on both sides of the railway line north of Nankowchen. On the evening of August 14th, they dislodged the Chinese 89th division from its positions near Nihang. Thus, the front ranks of the Japanese troops had advanced to the line connecting Huitien and Lungtang, by the evening of August 15th.

The Sakata detachment then succeeded in outflanking the right wing of the enemy positions. This detachment advanced to Sungshupien at 8 o'clock on the morning of August 14th and to a spot near the Great Wall on the evening of the same day. The detachment then attacked the 1,390 metre height held by part of the Chinese 4th division.

The situation along the Peiping-Suiyüan railway steadily developed favourably for Japan. The Japanese troops on the morning of August 18th launched an attack on the Chinese 89th division which had been holding Chuyüngkwan, a narrow defile, and steep ascents on both sides of the pass.

As may be imagined, fierce fighting ensued between the opposing forces, but the Japanese troops reduced Chuyüngkwan at 6 o'clock on the morning of August 23rd, and occupied Shangkwan, another barrier, at 10 o'clock on the morning of August 25th. At 1:30, the same afternoon, the Japanese forces captured Pataling, a former frontier city which was very strongly defended by walls built of stone and brick.

The Japanese then started a drive on the Huailai plain. After crossing the Outer Great Wall on August 24th, they swept everything before them and made a triumphant entry into the city of Huailai at noon, August 27th.

Another Japanese detachment, in concert with the Japanese troops which advanced from Nankow, started operations on August 17th against approximately 3 divisions of Chinese troops, which held the hilly area extending from the district west of the Peiping-Suiyüan railway to Chenpiencheng. At 4 o'clock on the morning of August 22nd, this detachment occupied the 1,120 metre height east of Chenpiencheng and of Huiling to the south. The same evening, the detachment entered Chenpiencheng.

One section of the detachment occupied heights north and west of Chenpiencheng, while another captured a height, 1,390 metres, the highest peak of the Pataling range, about 10 kilometres west of Chuyüngkwan. At dawn, August 24th, the combined Japanese forces broke through the enemy line. At 7 o'clock, the same morning, the vanguard of the Japanese troops passed the line connecting the Great Wall and Shitangtze, about 12 kilometres south of Huailai. The main body of this detachment advanced on the Huailai plain early in the morning of August 25th.

The Japanese military air force in close cooperation with the first line of the Japanese troops dropped bombs on the enemy positions at Yinking and Huaiju from early in the morning of August 24th despite adverse weather conditions. The air bombardments seriously disturbed the rear positions of the Chinese troops.

The Japanese air force attacked not only the Chinese troops retreating south of Shacheng in Chahar province but raided Tatung, strategically the most important point on the Peiping-Suiyüan Railway, and dropped bombs on military establishments there.

The Senda and Nara detachments which also pursued the Chinese troops along the Peiping-Suiyüan Railway captured Kangchuang and Yinking on the evening of August 27th.

The Aihara detachment, after reducing Huailai, continued its westward drive along the Peiping-Suiyüan Railway, and occupied Shacheng at 5:30 o'clock on the afternoon of August 28th. The fol-

lowing night the detachment made entry into the walled city of Hsinpaoan.

Detachments of the Kwantung Army, operating from the north, started eliminating remnants of the Chinese troops near Kalgan on the morning of August 25th. They entered Kalgan, capital of Chahar province at 11 o'clock on the morning of August 27th. The Tsutsumi detachment of the Kwantung Army captured Hsuanhua on the night of August 28th. About 7 o'clock, the following evening, the detachment occupied Hsiahuayuan where General Tang En-po, commander of the Chinese 13th Army, had set up his headquarters. On the night of August 29th, the Tsutsumi detachment established contact with the Aihara detachment, thus effecting direct contact between the Kwantung Army, operating from the north, and the Japanese Garrison Troops in North China, which advanced from Nankow. Close cooperation between these two Japanese forces hastened the capture of Kalgan and also the Peiping-Suiyüan Railway.

Chinese troops which attempted a drive on the Peiping and Tientsin area along the Peiping-Suiyüan Railway were miserably routed by the Japanese troops. They fled in confusion in the southwestern direction, namely toward Fanshanpu, Taoshanpu and Weihsien, leaving a large number of killed and wounded. It is ascertained that the Chinese 4th and 89th divisions were wiped out with the exception of one or two battalions, while the Chinese 21st and 72nd divisions lost the majority of their numerical strength.

The Kwantung Army in its operations in Chahar captured about 20,000 rounds of dumdum bullets from the Chinese troops up to August 31st.

Along the Peiping-Hankow and the Tientsin-Pukow Railway Lines

Simultaneously with the advance of Chinese Central Government troops along the Peiping-Suiyüan Railway, having the Peiping and Tientsin area as their objective, no less than thirty divisions of the Chinese Central Government troops, about 400,000 strong, moved northward along the Peiping-Hankow and the Tientsin-Pukow Railways up to August 20th with the same object in view. Especially brisk was the Chinese troop movement along the northern section of the Peiping-Hankow railway, from Chochow, 64 kilometres south of Peiping, to the Yungting River via Kuan, about 50 kilometres south of Peiping. Part of the Chinese troops advanced to the base of the mountains northwest of Liangsiang on the Peiping-Hankow

Railway which had been held by the Japanese. Accordingly, the situation became so tense and alarming, that the Japanese troops started operations against those Chinese troops at dawn on August 20th. The following evening the Japanese advanced their positions to the line connecting Tolitsun, Kungshufen and the southern limit of Liangsiang.

On the morning of August 25th, the Japanese troops started a general offensive against the enemy which held the hilly district from Peicheying to Yangtzekang. At 9:30, the same morning, the Japanese succeeded in dislodging the Chinese from the 500 metre and 348 metre heights south of Peicheying.

At 4 o'clock on the afternoon of August 27th, the Japanese troops started artillery bombardments on the 382 metre height about 3 kilometres northwest of Yangtzekang, the last stronghold of the enemy in this district. Assisted by their air force, the Japanese captured the height at 5:15, the same afternoon, thus destroying the Chinese positions west of Tolitsun which menaced the Japanese positions at Liangsiang.

On the other hand, the Hadori detachment, which had advanced south along the defile between mountains from Sangyutsun, attacked and occupied the enemy positions at Huashihpien on the morning of August 28th. The Hadori detachment, in cooperation with the Hisashige detachment, on August 29th launched an attack on the enemy at the 700 metre height about 4 kilometres south of Huashihpien; at 3:30, the same afternoon, the right wing projection of the enemy positions was captured. At 5:30, the following morning, the Japanese completely occupied this height.

Examination of the Chinese soldiers who surrendered to the Japanese in the engagement in a hilly district west of Tolitsun on August 27th and investigation of their belongings revealed the shocking fact that Chinese troops themselves or through inhabitants infected well water and provisions with bacilli in an attempt to massacre the Japanese troops. Fortunately, however, no victim was reported among the Japanese troops which had taken every possible precaution against such inhuman warfare.

Along the Tientsin-Pukow Railway Line

The Akashiba detachment occupied Chinghai on the Tientsin-Pukow railway line about 30 kilometres south of Tientsin on August 24th. This detachment, early in the morning of August 29th, resumed its southward advance and occupied Chenkwantun about 12 kilometres south of Chinghai shortly after 11 o'clock, the same morning. Giving hot chase to the retreating enemy, the detachment

advanced to Lukwantun, about 8 kilometres south of Chenkwantun at 4:30, the same afternoon. There the detachment started preparations for launching an offensive against the remnants of the Chinese 29th Army which had taken up positions at Machang, about 60 kilometres south of Tientsin.

To reconnoitre the enemy positions and also to facilitate the advance of the Akashiba detachment, three Japanese air force units, about 10 o'clock on the morning of August 30th, raided Siaowangchuan and dropped bombs on the military centres there. Japanese air forces also raided Tsangchow where the Chinese troops had established their base of operations, and dropped bombs on the military barracks, the railway station, troop trains and other military establishments, dealing heavy damage to them. The Chinese anti-aircraft guns at Tangkwantun and other places opened furious fire upon the Japanese planes, which, however, all returned to their base in safety.

On August 31st, the Japanese air force again raided Tsangchow and effectively bombarded the railway station, three troop trains and military establishments, as the result of which the city was thrown into confusion.

The Nakai detachment, during a heavy rainfall on August 31st, attacked Wangkouchen, about 12 kilometres west of Chinghai, and occupied it the same night. The enemy fled in confusion, sustaining heavy losses due to the repeated Japanese air bombardments and the fierce onslaught of the Japanese infantry.

The Situation in Chahar

Early in August, the Nanking Government began sending large numbers of troops to Chahar province, which were a serious menace to the security of Manchoukuo. This action constituted a flagrant violation of the Tangku Truce Agreement, and also of the Doihara-Chin Teh-chun Agreement (cf. August, TOKYO GAZETTE). Therefore, the Kwantung Army which is jointly responsible with the Manchoukuoan Army for safeguarding the national defence of Manchoukuo, determined to suppress the Chinese troops in Chahar.

A unit of the Kwantung Army air force started operations, at midnight on August 20th, against the 3,000 Chinese troops which had crossed the Great Wall north of Kalgan and invaded Inner Mongolia. The campaign developed very favourably, so that on August 21st the enemy fled in the direction of Kalgan, crossing the Great Wall south of Changpei, hotly pursued by the Japanese detachment. At 7 o'clock, the following morning, the detachment occupi-

ed Wanchuan. A section of it reached Kungchiachuan at 7 o'clock on August 24th and cut off the Peiping-Suiyüan Railway. At midnight the detachment effected an entry into Kalgan, cut the retreat of the Chinese troops which had invaded Chahar province, and started pursuing the enemy.

The Mongol troops which are cooperating with the Japanese troops encountered a Chinese cavalry force, about 3,000 strong, west of Changpei on the morning of August 24th and routed them with heavy losses.

Situation in the Peiping and Tientsin Area

Peace and order have gradually returned to the Peiping and Tientsin area with the successful Japanese campaign for eliminating remnants of the Chinese 29th Army which infested various places in the area after the main body of the army was routed by the Japanese troops. Representatives of Chinese citizens started a movement for maintaining peace and order, as the result of which a peace maintenance commission was organized in Peiping on July 30th, including Chiang Chao-tsung, formerly acting Premier of the Peking Government, Tsou Chuan-sun and Pan Yu-kuei. A similar peace maintenance commission was also formed in Tientsin on August 1st, including Kao Ling-wei, formerly Premier of the Peking Government, and ten other members. Conditions have been returning to normal in the Peiping and Tientsin districts. Train service between the two cities was resumed on August 6th, and railway, telegraphic and telephonic services between Peiping and Shanhaikwan were partially resumed from August 7th.

The Autonomous Government of East Hopei collapsed for a time with the Tungchow incident, but Chih Tsung-mo, as acting Chief Executive temporarily removed the seat of the government to Tangshan in East Hopei where he has been devoting his energies to the reorganization of the Autonomous Government and restoration of popular confidence.

The Japanese forces entered Peiping at noon of August 8th, when their commander issued a proclamation, assuring the citizens of Peiping that the Japanese troops would be responsible for maintaining peace and order in Peiping.

Shanghai Situation

The Shanghai incident was caused by the Chinese violation of the Shanghai Truce Agreement of 1932. When the situation became aggravated, the Japanese Government sent troops to Shanghai.

Early in the morning of August 23rd, the Japanese troops in co-operation with the Imperial Navy successfully landed near Lotienchen, on the estuary of the Yangtze River, and also near Woosungchen in the face of the enemy. Since then, the Japanese troops in concert with the Marines are steadily advancing their positions, pressing back the Chinese troops.

The Japanese detachment which landed at a point on the estuary of the Yangtze River completely occupied Lotienchen, strategically a very important point on the enemy's left wing, at noon on August 28th, after fierce fighting for 40 hours.

The Asama detachment inaugurated attacks on Yuehpuchen and Lion's Forest Forts on the morning of September 1st. This detachment occupied Lion's Forest Forts about 5 o'clock, the same evening, while a section of it captured Yuehpuchen. The detachment then pressed the Chinese troops southward.

The Japanese detachment which landed near Woosungchen launched an attack on Yinhangchen on the morning of August 27th and occupied an important point near Yinhangchen at 10 o'clock, the same morning. The detachment thus established a position menacing the rear of the enemy at the Chapei and Yangtzepoo districts.

Covered by naval and air forces, the main body of the Takamori detachment successfully effected a landing north of Woosungchen at 10 o'clock on August 31st. The detachment after 50 minutes fighting, occupied Woosungchen and the district north of it in cooperation with another Japanese force which operated from the iron bridge across the Woosung Creek. Fiercely pursuing the enemy which fled in confusion, the detachment at 1 o'clock, the same afternoon, reached the line connecting Lichiatze and the Mercantile Marine School building via Chuchiatze. The following evening, September 1st, the detachment made a further advance and reached the line from the southern limit of Woosung Fort to Tachinchiatsun.

Unit after unit of strong Japanese reinforcements landed near Woosung during the morning and afternoon of September 1st. The three arms of the Japanese forces, land, sea and air, in concerted action are now making combined attacks on the Chinese troops at Tachangchen.

Likewise on September 1st, an additional Japanese military detachment landed at the International Settlement of Shanghai.

II

THE IMPERIAL NAVY IN ACTION

PUBLICITY BUREAU, NAVY DEPARTMENT

The Situation around Shanghai

Following the conclusion between Japan and China of the Agreement for the Cessation of Hostilities on May 5, 1932, China began, as time elapsed, to manifest insincerity in the observance of the agreement. She increased the number of her constabulary. In violation of the stipulations of the agreement, she started to strengthen the military equipments of these policing forces to an unnecessary extent. Likewise, in various parts of the forbidden area, she began to make warlike preparations such as the construction of trenches and other military works, including a secret attempt at the reconstruction of the fortress at Woosung, rearmament of which was strictly prohibited in the terms of the Truce.

Again, since the Sixth Plenary Session of the Central Executive and Supervisory Committee and the Fifth Plenary Session of the Kuomintang Congress, which sessions were held in the autumn of 1935, China had concentrated vast forces of her Central Armies in the district between Nanking and Shanghai. This constituted a grave menace to Japanese rights and interests there; it served somewhat as a turning point in relations between the two countries. Furthermore, China converted regular troops into constabulary and plain-clothes soldiers whom she sent surreptitiously into the forbidden area, where she caused them to construct military works resembling *tochkas* and various other establishments of warlike character. When Japan protested against such violations of the Truce, China simply dodged the issue, showing no signs of honest dealing, while she continued to exhibit even greater arrogance and contempt toward Japan and the Japanese.

When the present affair broke out in North China, the Nanking Government openly ordered its armies around Shanghai to push preparations against Japan. At the same time, the constabulary in Shanghai secretly and feverishly constructed trenches in the neighbourhood of the Municipal Government Building and Kianwanchen, while in the Chapei district strong sand-bag positions were erected. From August 7th, the Chinese worked night and day constructing *tochkas* and other military works around the Municipal Government building and the North Station in flagrant violation of

the Truce.

In this warlike atmosphere, at about 6:30 o'clock on the evening of August 9th, an incident occured in which the Chinese Constabulary murdered Lieutenant Isao Oyama and First Class Seaman Yozo Saito of the Japanese Marines. The site of the murders was a point on Monument Road (an extension road of the International Settlement, to the east of the Hungchiao Aviation Field), about three hundred metres to the north of the southeastern gate of the air field.

On the following day, post mortem examinations were conducted on the spot in the presence of the Japanese and Chinese officials concerned. These revealed unspeakable brutality on the part of the constabulary; the fact of their looting was established; and the Chinese, who had been trying to hide their guilt to the last, were compelled to admit the complete falsity of their contentions.

On August 12th the Chinese began to strengthen their garrison at Woosung with regular forces in complete disregard of the Truce, while railway traffic between Nanking and Shanghai was closed to passengers and devoted to military purposes. Then, early in the morning of the following day, Chinese plain-clothes soldiers sniped sentinels of the Japanese Marines on Darroch Road, Dixwell Road and in various other parts of the Settlement. Despite such provocations by the Chinese, the Japanese still remained calm and prudent and refused to take up the challenge. However, upon being fired at by Chinese regulars as well as by plain-clothes soldiers, the Japanese Marines could not but return the fire.

Even under circumstances such as these, the Japanese Navy, earnestly solicitous of saving Shanghai from being involved in hostilities, and of insuring the safety of the lives and property of the three million innocent citizens there, refused to abandon the hope that their desire would somehow be realized. Accordingly, when on August 12th the consuls-general of Great Britain, the United States and France proposed mediation for the cessation of hostilities to the Japanese and Chinese authorities concerned, the Japanese proceeded promptly to give careful consideration to the proposal. Therefore, even when the bi-motor Martin monoplane bombers, the pride of the Chinese air force, appeared over the Japanese quarter of the International Settlement, on the afternoon of August 13th and carried out an intimidating flight toward the Hongkew area at the low attitude of only seven hundred metres, the Japanese took no action, but continued to exert their efforts for a peaceful settlement of the situation, by giving favourable consideration to the mediation proposal.

Apparently construing this peaceful attitude of the Japanese as a sign of weakness, the Chinese forces, ignoring the mediation propos-

al of the three Powers, sent a large aerial force over Shanghai on the 14th which not only attacked Japanese Marines and destroyed Japanese property, but wrought havoc with the pier and warehouses owned by British nationals and caused a terrible explosion of oil tanks of the American Standard Oil Company. At about 4:45 o'clock on the afternoon of the same day, the Chinese aeroplanes again appeared over the city and dropped bombs into the midst of several thousand refugees assembled at the Great World, the famous amusement centre of Shanghai. This was followed by another outrage at about 6:30 o'clock, when a Chinese plane dropped two bombs in front of the main entrance of the Cathay Hotel at the corner of Nanking Road, the finest and the most congested business centre of Shanghai. This resulted in numerous casualties as large numbers of refugees were concentrated there at the time of the attack. The scene of the disaster presented an indescribably appalling spectacle. According to the report of the *Journal de Shanghai* of the following day, casualties caused by these Chinese bombings amounted to 445 killed and 821 wounded in the French Concession and 495 killed and about 600 wounded in the International Settlement.

When the state of affairs came to such a pass, the Imperial Japanese Navy was at last resolved to take the necessary measures and commenced operations with lightning speed after issuing the following statement on August 14th:

> The outrageousness of the Chinese in the Oyama incident has been definitely ascertained by the post mortem examination held on the spot in the presence of Japanese and Chinese representatives and members of the Shanghai Municipal Council. Notwithstanding this the Chinese have not only failed to reflect on their wrong act, but have manifested an aggressive attitude toward us, thereby rendering the situation around Shanghai extremely strained. However, in consideration of the international character of Shanghai with its many foreign residents, Japan has continued to exert utmost caution. Accordingly, we have done nothing other than respond to the wanton attacks made against us by the Chinese forces since last night, and we have refrained from attacking the Chinese aeroplanes flying low over the Settlement, in view of the fact that we were deliberating on the proposal of mediation, submitted on the 13th by the ambassadors of third Powers, to Japan and China. But at about 4 a.m. today, the 14th, more than ten Chinese aeroplanes went the length of perpetrating the outrage of bombing our warships, the headquarters of our Marines, our Consulate-General and other places. The Imperial Japanese Navy, which has consistently maintained an attitude of patience and perseverance until today, has now finally been compelled to resort to all such measures as are necessary and effectual. That we have been forced to take this step is greatly regretted in view of

the hope for peaceful settlement which we have always entertained, but it is indeed unavoidable.

The Determined Fighting of the Marines

From that date, the Japanese Marines numbering only several thousand, opposed the overwhelmingly large Chinese forces scores of times as numerous as themselves. And though successively harassed night and day by the raids of the Chinese regular troops and by the intrusion of plain-clothes soldiers, they tenaciously held their positions in the area extending from Hongkew to Yantzepoo, by inflecting heavy losses on the enemy. However, in view of the necessity of clearing the environs of Shanghai of the enemy forces, in order to assure the safety of the international metropolis, Imperial Army contingents forced a landing in the face of enemy fire, perhaps the most difficult of military operations, in the grey of the morning of August 23rd, under cover of Japanese warships and aerial forces. After an hour of hand-to-hand fighting, they occupied the enemy positions.

The morale of Japanese forces on the Shanghai front was greatly heightened by the landing of Army contingents. Thus all Imperial forces began a concerted advance; they secured their lines around the Settlement, repulsed the enemy's air raids and repeated counter-attacks, and swept the Chinese plain-clothes soldiers from the rear which the latter had been attempting to disturb.

By these activities of the Japanese forces, communications in the Yangtzepoo area have been secured; various public utilities, such as water-supply and electric light and telephone services have just begun to be restored, so that the going and coming of foreigners in that district has increased. And while keeping strict guard against the surreptitious entry of lawless Chinese elements, the Japanese forces have at the same time begun a general readjustment within the Settlement.

The Closing of the Chinese Sea Coast to Traffic of Chinese Vessels

Time and again the Japanese Government has made it clear that, despite its earnest efforts to prevent an aggravation of the situation, hostilities have unavoidably been extended. Since the situation has assumed serious proportions, the adoption of all effective measures to destroy the fighting power of China appears to be the sole means of making China reconsider her erroneous attitude and of bringing the affair promptly to an end, thereby restoring peace as soon as possible.

From this viewpoint, the Imperial Japanese Navy decided to close the Chinese sea coast, extending from the mouth of the Yangtze River through Fuchow and Amoy to Swatow, to traffic of both government and private vessels of China, and issued, on August 25th, the following proclamation in the name of the Commander-in-Chief of the Third Fleet.

I hereby proclaim that, beginning at 6:00 p.m., August 25, 1937, the sea coast of China from 32°4′ north latitude and 121°44′ east longitude, to 23°14′ north latitude and 116°48′ east longitude is closed to the traffic of Chinese government and private vessels by the naval force under my command.

The present closure shall be valid against all Chinese vessels.

Traffic of vessels of third Powers as well as those of Japan in the area closed by the present proclamation will not be interrupted.

Done on August 25, 1937.
Vice-Admiral Kiyoshi Hasegawa
Commander-in-Chief of the Third Fleet.

Subsequently, the Japanese Navy decided to extend the area of the closure to the entire Chinese sea coast. On September 5th the following proclamations were issued:

I hereby proclaim that, beginning at 6:00 p.m., September 5, 1937, the Chinese sea coast from 40° north latitude and 119°54′ east longitude, to 34°30′ north latitude and 119°55′ east longitude, except Tsingtao, is closed to traffic of Chinese government and private vessels by the naval force under my command. The present closure shall be valid against all Chinese vessels, and there will be no interference with vessels of third Powers as well as those of Japan.

Done on September 5, 1937.
Vice-Admiral Zengo Yoshida.
Commander-in-Chief of the Second Fleet."

"I hereby proclaim that, beginning at 6:00 p.m., September 5, 1937, the Chinese sea coast from 34°30′ north latitude and 119°55′ east longitude to 21°33′ north latitude and 108°03′ east longitude, except leased territories of third Powers, is closed to traffic of government and private vessels of China.

The present closure shall be valid against all Chinese vessels, and there will be no interference with vessels of third Powers as well as those of Japan.

This proclamation supersedes the proclamation issued by me on August 25, 1937.

Done on September 5, 1937.
Vice-Admiral Kiyoshi Hasegawa.
Commander-in-Chief of the Third Fleet

Activities of the Naval Air Force

On the afternoon of August 14th Vice-Admiral Hasegawa, Commander-in-Chief of the Third Fleet, issued the following important statement :

> The Third Fleet has been forced to take necessary defensive measures an account of provocative attacks by the Chinese forces. Consequently, the people dwelling in the areas occupied by Chinese forces and in the neighbourhoods of their military establishments are advised to move to other suitable districts.

Soon after the issuance of the above proclamation, an order was dispatched to the Japanese Naval Flying Corps which had been awaiting action. No sooner had the order been received than the pick of the Imperial Naval air force began operations. Breaking through the raging centre of a typhoon, crossing over vast expanses of the sea, and braving all other hazards of the elements both night and day, the Japanese planes flew not only over Shanghai and its neighbourhood but deep into the interior of China, and conducted aerial campaigns unprecedented in the annals of aerial warfare. The activities of the Naval Flying Corps may be gleaned from the following records.

August 14th :

An aerial force hopped off from its base braving stormy weather. At about 6 : 30 o'clock in the morning, one of its units bombed the air fields of Hangchow, Chiekiao and Kiaossu, while another unit bombed the Kuangte Air Field. By these air raids Japanese forces destroyed an aerodrome and several planes lying outside the aerodrome at Chiekiao, and two hangars and several planes lying outside the aerodrome at Kuangte. In an aerial combat they shot down four enemy planes.

In the bombing attack on Hangchow, one Japanese bomber (commanded by a petty officer of the Naval air force) received seventy shots, large and small, from anti-aircraft guns, and from over ten enemy fighters. One of the engines and the wireless apparatus of the plane were shot through and rendered useless, but the pilot valiantly continued to fight, and, after shooting down two enemy planes, he returned his plane safely to its base. The return flight, made alone, since much time had elapsed, was managed successfully through a dangerous storm over the sea, with but the remaining engine functioning. The bravery and composure of such a crew as this are indeed worthy of highest admiration ; the power of Japanese aeroplanes has been demonstrated to the world.

August 15th :

1. A squadron approached the Nanchang Air Field around noon, although its planes lost sight of one another in the dense atmosphere caused by a raging rain storm. This field was bombed, and nine enemy planes outside the aerodrome were destroyed in addition to serious damage which was inflicted on the commanding headquarters and on the field itself.

2. A squadron raided Nanking at about 9:30 o'clock in the morning. Flying low through rain over the air bases in and around the Chinese capital, Japanese planes bombed and destroyed three aerodromes, commanding headquarters, and over eight planes of the Chinese force. This squadron also engaged in severe aerial combats over Soochow and Nanking. The definite number of enemy planes shot down in these encounters was nine.

3. A squadron representing the pick of the Japanese Naval air force flew to Kiaossu and Shaosing (on the southern coast of Hangchow Bay) in spite of terrible weather conditions. At about 9 : 00 o'clock in the morning, the planes bombed the enemy airfields at these points, destroying six planes lying on the ground, and inflicting damage on the aerodromes.

Another squadron bombed the Chiekiao Air Field at about 3:30 in the morning and caused damage to the field and hangars. At the time these bombings were carried out, the Japanese planes engaged with a large force of enemy fighting planes, and shot down nine of them.

4. A squadron bombed the Hangchow Air Field, destroying a fighting plane and four hangars.

The loss sustained by the Japanese forces in the bombing raids carried out in the two days described above amounted to eight planes, the majority of which were lost on account of daring flights made while flying at low altitudes during stormy weather.

August 16th :

1. A squadron raided the Kasing Air Field at about 6 : 00 o'clock in the morning during heavy rainfall. Eight Chinese planes that were preparing for action were destroyed, while two other planes were shot down in the air. Another squadron bombed the Hungchow Air Field and destroyed two enemy planes. Additionally, a hangar, a barrack house and other buildings were shattered to pieces. In this attack, a slight injury received by one aviator was the extent of the Japanese casualties.

2. With part of its force, the corps which, in the forenoon,

bombed the Chinese air bases at Kasing and Hungchiao and inflicted severe damages on them, cooperated with Japanese Marines, and bombed the enemy artillery positions in Kiangwanchen, Nansiang and Tachangchen several times during the morning and afternoon. Another unit of the same corps, engaging in aerial combat, shot down two Douglas planes and one Corsaire plane without sustaining any loss to itself.

3. Leaving their base early in the morning, two bombing squadrons, one for Küyung and the other for Yangchow, bombed these two places at 11:00 o'clock in the morning and 0:30 in the afternoon, respectively. At Küyung, the Japanese force bombed and destroyed thirteen enemy fighting planes that lay outside the aerodrome, and in aerial combat shot down eleven out of twenty enemy fighters. At Yangchow, the Japanese planes bombed and destroyed six large and three small enemy planes which were lying outside the aerodrome, and in aerial combat shot down two enemy machines.

In these two raids, the Japanese loss consisted solely of one plane which was missing. One of the planes which raided Küyung lost sight of its companion fliers due to inclement weather. It remained to engage in combat with additional enemy planes, and shot down three of them. Although it received numerous bullets in its fuselage, some of which pierced its fuel tank and injured members of the crew, it returned to its base without mishap, as the crew selected a suitable course with admirable presence of mind.

4. A squadron which hopped from its base at night, taking advantage of the darkness, made a surprise attack on the Nanchang Air Field. After inflicting extensive damages to the enemy, it returned safely to its base.

By similar series of operations, the Japanese Naval air force carried on bombing expeditions to Pengpu, Hwaiyin, Haining, Nanking, Chiuchiang, Kuangteh, Chuchow, Hankow, Hsiaokan and other places. By shooting down numerous aeroplanes of the enemy, and by cooperating with the Japanese troops, the Corps has wrested control of the air around Shanghai.

Evacuation of Japanese Nationals in China

Since the outset of the present affair, the Imperial Japanese Navy has adopted a most careful attitude to prevent the affair from spreading to Central and South China and has devoted efforts toward the protection of Japanese nationals as well as their rights and interests in China. However, anti-Japanese acts in China daily increased in violence and insidiousness. Chinese merchants conducting

any business relations with Japanese were persecuted as traitors, and finally the Chinese began to hurl stones at Japanese women and children as well as to refuse to sell any provisions to Japanese residents. Under such circumstances, the Chinese employees of Japanese firms and factories ceased to attend to their work for fear of persecution likely to be dealt on them by their own people, thereby compelling the closure of the firms and factories. General business transactions by Japanese ceased and their livelihood was menaced. Moreover, Chinese armies and constabulary constructed various military works around the Japanese Concession and other Japanese-inhabited districts, while these forces were rapidly concentrated so as to besiege the Japanese areas. The general condition of affairs became such that the dreadful Tungchow incident (cf. August TOKYO GAZETTE) might be repeated at any moment in those districts. In view of such circumstances, it was decided to evacuate Japanese residents from the upper regions of the Yangtze River.

Evacuation of Japanese nationals from various points along the Yangtze began toward the end of July under the protection of Japanese warships. This progressed so steadily that all Japanese residents numbering 2,800, scattered in different places along the river extending over 1,000 sea miles between Chungking and Shanghai, were evacuated without a single mishap within the brief period of some days.

In Tsingtao an incident occurred on August 14th in which two Japanese seamen patrolling the streets were shot by Chinese plain-clothes soldiers. The alarm caused by this affair subsided following diplomatic negotiations; but when on August 21st the corps of Chinese Salt Guards dispatched by the Nanking Government came into the Tsangkow district and replaced the local police, the situation again became so tense that the evacuation of all Japanese women and children was carried out on August 23rd. Three days later, namely on August 26th, an order was issued for the evacuation of all remaining Japanese. They quit the port city, leaving behind them their entire property and business for which they had toiled for past decades.

THE 72ND SESSION OF THE IMPERIAL DIET

—Ministerial Addresses of September 5th, 1937—

Address of

Prince Ayamaro Konoye, Prime Minister

I am profoundly moved to say that His Imperial Majesty's most gracious message regarding the China affair was granted us at the opening of the Imperial Diet yesterday. It is my humble desire that we shall be able to set His Majesty's heart at rest by our loyal and devoted service to the Throne in accordance with the august will of our Sovereign.

Since the outbreak of the affair in North China on July 7th, the fundamental policy of the Japanese Government toward China has been simply and purely to seek the reconsideration of the Chinese Government and the abandonment of its erroneous anti-Japanese policies, with the view of making a basic readjustment in relations between Japan and China. This policy has never undergone a change; even today it remains the same. The Japanese Government has endeavoured to save the situation by preventing aggravation of the incident and by limiting its scope. This has been repeatedly enunciated; I trust that it is fully understood by you.

The Chinese, however, not only fail to understand the true motives of the Japanese Government, but have increasingly aroused a spirit of contempt and have offered resistance toward Japan, taking advantage of the patience of our Government. Thus, by the outburst of uncontrolled national sentiment, the situation has fast been aggravated, spreading in scope to Central and South China. And now, our Government, which has been patient to the utmost, has acknowledged the impossibility of settling the incident passively and locally, and has been forced to deal a firm and decisive blow against the Chinese Government in an active and comprehensive manner.

In point of fact, for one country to adopt as its national policy the antagonizing of and the showing of contempt for some particular country, and to make these the underlying principle of national education by implanting such ideas in the minds of the young, is unprecedented in the history of the world. Thus, when we consider the outcome of such policies on the part of China, we feel grave concern not only for the future of Sino-Japanese relations, but for

the peace of the Orient and consequently for the peace of the entire world. The Japanese Government, therefore, has repeatedly requested the Chinese Government to reconsider and to change its attitude, but all in vain. This failure of the Chinese Government has finally caused the present affair. We firmly believe that it is in accordance with the right of self-defence as well as with the cause of righteousness and humanity that our country has determined to give a decisive blow to such a country, so that it may reflect upon the errors of its ways. For the peoples of East Asia, there can be no happiness without a just peace in this part of the world. The Chinese people themselves by no means form the objective of our actions, which objective is directed against the Chinese Government and its army who are carrying out such erroneous, anti-foreign policies. If, therefore, the Chinese Government truly and fully reexamines its attitude and in real sincerity makes endeavours for the establishment of peace and for the development of culture in the Orient in collaboration with our country, our Empire intends to press no further.

At the present moment, however, the sole measure for the Japanese Empire to adopt is to administer a thoroughgoing blow to the Chinese Army so that it may lose completely its will to fight. And if, at the same time, China fails to realize its mistakes and persists in its stubborn resistance, our Empire is fully prepared for protracted hostilities. Until we accomplish our great mission of establishing peace in the Orient, we must face many serious difficulties, and, in order to overcome them, we must proceed steadily with our task, adhering to the spirit of perseverance and fortitude in one united body.

Now that our Imperial Army and Navy, with their loyal officers and men, are advancing with all dignity in the cause of righteousness, exalting their might far and wide, we are filled with grateful emotion. Simultaneously, we feel highly encouraged to witness the sincere support displayed throughout the length and breadth of the Empire. Let us, however, be on our guard against intoxication over victories already won, and maintain an unrelaxed vigil toward achieving our final purpose.

The Government is hereby introducing to the Imperial Diet urgent budgetary and legislative measures. In these measures the Government seeks to adopt a financial and economic structure for coping with the present extraordinary situation. We are ready, however, to take all possible precautions to avoid unnecessary shock to financial circles. As for developments in the affair, foreign affairs and financial plans, they will be stated by the Ministers in charge.

The Government feels greatly honoured to assist, together with you, in the administration of affairs of the State, and at the same time feels increasingly the graveness of its responsibility. We earnestly beseech you gentlemen to give approval after mature deliberation to the Governmental measures which will be introduced.

Address of

Mr. Koki Hirota, Minister for Foreign Affairs

As it was my privilege to address you but a short time ago, at the 71st session of the Imperial Diet, on Japan's foreign relations in general, I shall confine myself today to a review of developments in the China affair since that occasion.

From the beginning of the present affair, the Japanese Government, following strictly its policy of local settlement and non-aggravation, has exerted every effort to effect a speedy solution. The Nanking Government, whose prompt reconsideration was invited, failed to manifest a semblance of sincerity, and concentrated its armies in North China to challenge Japan. In the Yangtze Valley and elsewhere in South and Central China it embarked upon an anti-Japanese campaign of the most vicious nature, which not only prevented our nationals in those regions from engaging in their peaceful pursuits, but also jeopardized their very existence. In these circumstances, the Japanese Government, still desiring to avoid the disturbance of peace as far as possible, ordered the evacuation of all Japanese residents in Hankow and other points along the Yangtze River. Yet shortly after this precautionary step, on August 9th Sub-lieutenant Oyama and Seaman Saito of the Japanese Marines at Shanghai were murdered by members of the Chinese Constabulary. Even then, Japan adhered to a peaceful course, and sought to settle the affair through the withdrawal of the constabulary and the removal of all military works that had been erected in violation of the 1932 Truce Agreement. China refused to comply with our demands under one pretext or another, and proceeded, instead, to increase her troops and multiply her military works in the prohibited zone, and finally launched an unwarranted attack upon the Japanese. Thereupon, as a matter of duty, our Government despatched a small naval reinforcement to Shanghai as an emergency measure to insure the protection of our nationals in that city.

In view of these disquieting developments in Shanghai, the ambassadors at Nanking of the five Powers—Great Britain, the United States, France, Germany, and Italy—sent a joint request on August

11th both to Japan and China that the two countries do all in their power to carry out effectively a plan to exclude Shanghai from the scope of any possible hostilities so as to safeguard the lives and property of foreigners therein. Our Government replied through Mr. Kawagoe, Ambassador to China, to the effect that Japan was genuinely concerned over the safety of the lives and property of all foreigners as well as of the Japanese in Shanghai. Should China, as the first prerequisite, withdraw beyond striking distance her regular troops and the constabulary that were advancing on the Settlement and menacing the Japanese, and remove the military works in the vicinity of the International Settlement, Japan was prepared to restore her forces to their original positions. The Ambassador was also instructed to request the Powers concerned to exert their influence induce the Nanking Government to execute these urgent and necessary measures, which, however, were flatly rejected by China. On August 13th the Consuls-General at Shanghai of Great Britain, America and France submitted a concrete plan, proposing that Japan and China enter into direct negotiations for the purpose of averting the impending crisis. The text of the proposal was received in Tokyo at midnight, August 13th. But in the afternoon of that very day, the Chinese armies, which had been pouring into the Shanghai area, took the offensive, and on the 14th their warplanes dropped bombs not only on the headquarters of our Marines, a Japanese warship and our Consulate-General, but also on a wide area of the International Settlement. We could hesitate no longer to abandon all hopes for a peaceful settlement and fight for the protection of our 30,000 nationals in Shanghai. I regret to say that the earnest efforts of the Powers concerned were thus nullified by Chinese outrages.

With Shanghai converted into a theatre of hostilities, grave concern was naturally shown by the Powers who had vast amounts of capital invested and large numbers of their nationals residing in the city. Great Britain notified both Japan and China under date of August 18th, that if the governments of the two countries agreed mutually to withdraw their forces and to entrust the protection of Japanese subjects residing in the International Settlement and on the Extra-Settlement roads to foreign authorities, the British Government was prepared to undertake such responsibility provided that other Powers would cooperate. On the following day, the 19th, we were informed by the French Government of its readiness to support the British proposal. The American Government also had previously expressed its hope for the suspension of hostilities in the Shanghai area. Japan, having as great interests in Shanghai as these Powers, is equally solicitous for the peace of the city. But as has

been stated above, the actions taken by the Chinese in and around Shanghai are plainly in violation of the Truce Agreement of 1932, in that the Chinese illegitimately moved their regular troops into the zone prescribed by that Agreement, and increased both the number and armaments of the constabulary, and in that relying upon their numerical superiority, they challenged the Marines and civilian population of our country. Therefore, in its reply to the British proposal our Government explained in detail Japan's successive efforts toward a peaceful solution and stated the truth regarding the lawless Chinese attacks, and affirmed that the hostilities at Shanghai could not be brought to a close save by the withdrawal of the Chinese regular troops from the prohibited zone, and of the constabulary from the front lines. At the same time, our sincere hope was expressed that Great Britain, as one of the parties to the Truce Agreement, would use her good offices to bring about the withdrawal of the Chinese troops outside the prescribed zone. Similar replies were sent to the French and American authorities.

In North China, in wilful disregard of the various pledges and agreements, Chinese Central Armies were moved northward to indulge in a series of provocative actions, and large forces began to pour into the province of Chahar. Our Government, therefore, has had to take determined steps to meet the situation.

Thus hostilities have now spread from North to Central China, and Japan finds herself engaged in a major conflict on extended fields. I am deeply pained to say that some 50,000 Japanese residents in various parts of China have been forced to evacuate, leaving behind them their huge investments, their business interests acquired through years of arduous toil, and other rights and interests, while not a few of them have been made victims of hostilities. It is also to be regretted that nationals of third countries in China are being subjected to similar trials and tribulations. All this is due to no other cause than that the Nanking Government and also the local military régimes in China have for many years deliberately undertaken to incite public opinion against Japan as a means of strengthening their own political powers, and in collusion with communistic elements they have still further impaired Sino-Japanese relations. Now our loyal and valiant soldiers, with the united support of the nation behind them, are engaged in strenuous campaigns night and day amid indescribable hardships and privations. We cannot but be moved to hear of their heroic sacrifices as well as of their brilliant achievements.

It is hardly necessary to say that the basic policy of the Japanese Government aims at the stabilization of East Asia through con-

ciliation and cooperation between Japan, Manchoukuo, and China for their common prosperity and well-being. Since China, ignoring our true motive, has mobilized her vast armies against us, we can do no other than counter it by force of arms. The urgent need at this moment is that we take a resolute attitude and compel China to mend her ways. Japan has no other objective than to see a happy and tranquil North China, and all China freed from the danger of a recurrence of such calamitous hostilities as the present, and Sino-Japanese relations so adjusted as to enable us to put into practice our above-mentioned policy. Let us hope that the statesmen of China will be brought to take a broad view of East Asia; that they will speedily realize their mistakes; and that, turning over a new leaf, they will act in unison with the high aim and aspirations of Japan!

Address of
Mr. Okinobu Kaya, Minister of Finance

I wish to speak on the outlines of the Budget for extraordinary military and naval expenditures as well as on the supplementary budget for the twelfth year of Showa (1937), both of which have been submitted to the Diet, and on the financial and economic policy of the Government vis-à-vis the aggravation of the China affair.

As to the expenditures connected with the present affair, your approval was given to the necessary outlay at the 71st Session of the Diet. However, in view of the subsequent developments of the situation, the appropriations that are required to cover the expenditures of necessary measures are now as follows:

Extraordinary military and naval expenditures	approximately	2,022,000,000 yen.
General Accounts for various Departments ...	approximately	42,000,000 yen.

Of the above-mentioned items, the extraordinary military and naval expenditures are required for the conduct of hostilities. Because they involve large sums, and because it is deemed necessary to treat them specially and to deal with the entire period in which they are expended—from now until the termination of the affair—as a single fiscal year, it has been decided to submit a Bill relative to the establishment of a "Special Account for the Extraordinary Military and Naval Expenditures." Their treatment apart from general budgetary items is required by the very nature of these expenditures.

As regards the General Accounts for other Departments, these appropriations are submitted, in consideration of the present situa-

tion, as necessary for expenditures required for the conduct of foreign affairs, for an increase of the fund for the relief of soldiers' families, for the encouragement of activities giving assistance to soldiers, for the general mobilization of the national spirit, for the enforcement of the law on air defence, for emergency measures for rural and fishing villages, and for compensation for the loss in importation of ammonium sulphate.

As for the sources of revenue for the above-mentioned expenditures, we plan to employ funds raised by loans for all extraordinary military and naval expenditures, and, for the items in the General Accounts, to employ the unused portion of this year's authorized appropriations as well as the increased amount of ordinary annual revenue resulting from the expenditures.

Aside from these, supplementary appropriations have been provided in each Special Account in the overseas possessions for necessary expenditures in respect to the present situation.

Furthermore, it has been decided to present a Bill for the purpose of affording the officers and men on the front an exemption or reduction of taxes and postponement of their collection.

As has been explained, the expenditures pertaining to the present China affair amount to a large sum; but they are deemed essential for the purpose of chastising the outrageous Chinese forces and to cause prompt reconsideration on the part of the Chinese Government. And in order fully to accomplish these purposes, I believe it necessary to readjust our financial and economic structure to meet this emergency; that is to say, various measures must be taken primarily with a view to supplying necessary materials as plentifully as possible. These materials include capital and labour to essential industries, such as those connected with national defence requirements. While a liberal flow of capital must positively be promoted in order to cause concentration of materials and labour in those directions, the limited supply of capital, materials, and labour necessitates the discouraging, for the time being, of inaugurating or expanding enterprises for which there is no pressing necessity at this time.

Moreover, I deem it important to limit the exportation of materials required due to the present situation and simultaneously to restrict the importation of materials that are relatively unessential, thereby augmenting the capacity to import essential materials and taking measures to meet deficiencies in commodity supply at home arising from such import restriction. In conformity with these aims, therefore, it is necessary to make suitable adjustments in finance, industries, trade, capital and foreign exchange.

The Government, accordingly, has submitted a Bill designed to effect proper adjustment of capital according to the above-mentioned aims with reference to the establishment of corporations or to capital increases in them, as well as to the underwriting of corporate debentures by financial institutions and also loans for financing the establishment or expansion of industrial facilities. The Bill is also designed to enable the Industrial Bank of Japan to raise the issue limit of industrial debentures or to take other measures in order to supply necessary capital for enterprises demanded by the present exigencies.

For similar purposes, the Government, in order to insure an ample supply of materials which will be particularly necessary, has decided to present a Bill to forestall impediments in the proper functioning of national economy with a view to restricting import and export of certain items of materials, and regulating the supply and demand of goods manufactured from them. As for the regulation of such capital and materials, it is the policy of the Government to leave the matter to the voluntary adjustment of the business interests concerned.

As I have already stated, the Government will endeavour as far as possible to bring about the adjustment of supply and demand relating to goods and capital. Especially as regards the adjustment between supply and demand of articles manufactured from imported raw materials, the success of our efforts depends largely upon curtailment of consumption by the people, and I earnestly hope that such curtailment will be practised along all lines so that through the voluntary cooperation of the people the needs of the nation, as a whole, will be satisfied. Then, since it is possible that the sudden increase of demands due to the present affair may bring about an exhorbitant rise in prices, the Government will take appropriate steps adequately to meet such a situation through proper enforcement of the Anti-Profiteering Ordinance. Again, as to the adjustment between goods and capital, the Government is giving careful consideration to the fields of finance, and has adopted a policy of omitting as much as possible from the 1938 Budget appropriations items other than those connected with the present affair. This same policy of retrenchment is being pursued in regard to disbursements for 1937. Local governments will be instructed to administer their finances according to the same policy.

With the increase in the amount of the Government's bond issue, greater care is required in the execution of the bond policy. The Government is planning to devise measures suited to the circumstances by means of the above-mentioned adjustment of capital by law, the utilization of the funds of the Bureau of Deposits and other governmental funds, and the sale of Government bonds through post

offices. But, after all, what is most needed is that the general public, to say nothing of financial organs, will extend both cooperation and support from the national standpoint in the matter of bond assimilation. Of course, the assimilation of bonds has much to do with the actual condition of the financial world. The Government will see to it that the supply of capital is ample and that financial channels are kept clear and unobstructed. The interest rate for Government bonds will be maintained at the present level, and the exchange rate will also be kept at the level of one shilling two pence on London, as the firm maintenance of this level is believed essential for insuring sufficiency of military supplies and the stability of the nation's standard of living.

I am greatly encouraged by the demonstrations of national unity in all quarters of society shown since the beginning of the present affair. The Government will, on its part, do its best to deal with the current situation, and expects to carry out all necessary measures. However, the desired end cannot be achieved without the united efforts of both Government and people, and I appeal to you for the whole-hearted support and cooperation of the entire nation.

In conclusion, let me hope that you will give speedy approval to the Budget which is being submitted to you.

EMERGENCY LEGISLATIVE MEASURES INCIDENTAL TO THE CHINA AFFAIR

BUREAU OF INFORMATION, PRIME MINISTER'S DEPARTMENT

Temporary Capital Adjustment Law

(Law No. 86, 1937, Promulgated on September 10th)

The object of this Law is to regulate the employment of capital within the Empire so as to adjust supply and demand of materials and capital with especial regard to the China Affair (Article 1). With the progress of operations in China increased disbursements of Treasury funds will tend to stimulate industrial enterprises, which in turn will create a strong demand for materials. This growing demand can only be met, at present, by importation from abroad. If left uncontrolled, this situation might in the end bring about a shortage in the materials so much required for military purposes and for other industries directly related to the present exigency. It is of paramount importance, therefore, to check the use of any materials in unnecessary enterprises in order to keep their supply smooth and plentiful in the fields where they are more urgently required.

So also in the matter of credits. While it is obvious that the supply of credits must be kept ample for the manufacture of articles most needed in the prosecution of the great task now lying before the nation, it is equally important that, in view of the large amounts of national bonds awaiting issuance, fresh investments should be properly controlled so that all available credits may be turned to lines closely related to the present situation. Under these circumstances, it has been prescribed that, where any financial institutions, including banks, and trust and insurance companies, desire to make a loan to be employed in fixed equipment, in excess of the stated amount, or where they desire to underwrite corporate debentures or other securities, they should apply for the approval of the competent authorities (Article 2). Approval of the authorities is required likewise for the establishment of an increase of the capital of certain companies prescribed in the orders issued under this Law (Articles 4&5). Where, however, financial institutions and security underwriters, in making loans or taking up securities, endeavour to adjust the employment of their funds of their own accord in a manner deemed proper under the purposes of the present Law, they are not required to apply for official approval for their acts (Article 3). As a matter of fact, the Government encourages such voluntary adjustment of capital investments for the furtherance of the object of this Law.

It thus devolves upon the financial institutions to make concerted efforts to meet the growing demand for industrial funds. For this purpose, the Industrial Bank of Japan is authorized to issue its debentures up to 500 million yen in excess of the statutory limit, which is ten times its capital

amount, or 500 million yen; of this excess issue of 500 million yen, the Government undertakes to guarantee the payment of principal and interest. Furthermore, it is provided that funds belonging to the Gold Funds Special Account may be employed in the Industrial Bank of Japan debentures (Articles 6 & 7). Companies engaged in a business directly related to the emergency may, with approval of the competent authorities, and notwithstanding the provisions of the Commercial Code, effect an increase of their capital stock even before the existing shares are fully paid in, or may issue their debentures not exceeding two times their paid-up capital (Articles 8, 9 & 10).

The Law provides for the creation of a Temporary Capital Adjustment Committee, consisting of official as well as unofficial members, whose duty is to conduct investigation on the basic matters relating to the adjustment of investments with the view to formulating the fundamental principles of the operation of the present Law. There will be established another committee called a Temporary Capital Inquiry Committee which will pass upon the more important matters relating to approval for loans, and subscription or underwriting of securities by the financial institutions above mentioned; on matters relating to the establishment of companies prescribed by the orders; and on increase of capital or issuance of debentures by industrial companies notwithstanding the provisions of the Commercial Code (Articles 11 & 12). As the present situation may have brought, or may be bringing, sudden increases in income to members of certain sections and classes of the populace, the need is felt of encouraging the practice of thrift and saving among these classes of people. At the same time, small savings bonds with premiums will be issued through the Hypothec Bank of Japan up to the extent of 200 million yen, for the purpose of absorbing such petty savings (Articles 13 & 14). In order that the Government may be in a position to undertake effective control of capital investments, and otherwise to take proper measures with regard to financial matters generally, it is obviously nece. sary to collect adequate and reliable data on the problems at hand. The Government, accordingly, is empowered to require the parties concerned to present reports, or to institute examination of such parties on matters relating to requirements of funds, securities, international payments, and capital plans for business (Article 16).

The present Law came into force on September 27th upon issuance of an Imperial Ordinance, with the exception of Article 11, on the creation of the Investment Adjustment Committee, which took effect on September 15th. Save for a few Articles, this Law shall be annulled within one year after the cessation of the China Affair (Addenda).

Amendments to the Foreign Exchange Control Law

(Law No. 87, 1937, Promulgated on and Enforced since September 10th)

The importance of maintaining the exchange value of the yen at the present level need hardly be stressed. For the maintenance and stabilization of the exchange rates, the Foreign Exchange Control Law has now been amended, whereby provisions are made for the control of the acquisition or

disposal of claims and obligations expressed in terms of Japanese currency by parties resident in foreign countries, or for the control of the acquisition or disposal of property in foreign countries. Further amendments have been made to render the control of secret exports of gold even more strict.

Law Concerning Emergency Disposal of Rice

(Law No. 90, 1937, Promulgated on September 10th)

This Law empowers the Government to meet, from its holdings of rice, the growing military need for the staple foodstuff, which if purchased in the market might not only unnecessarily disturb business but interfere with the movement of military supplies which obviously requires speed and secrecy (Article 1). Furthermore, with a view to rendering the supply and demand of rice constant and to keeping its prices stabilized, especially in times of emergency such as the present, the Government is empowered to make purchases of rice as and when deemed necessary to replenish its stock (Article 2). The effective date of this Law will be fixed by Imperial Ordinance, and the Law shall be annulled within one year after the cessation of the China Affair (Addenda).

Temporary Law Concerning Control of Distribution of Fertilizers

(Law No. 91, 1937, Promulgated on September 10th)

One of the immediate effects of the China Affair upon the agricultural industry in Japan is the decline in supply of natural, as distinct from artificial, fertilizers. On the other hand, some difficulty will necessarily be experienced in obtaining sufficient quantities of imported fertilizers due to shortage in ship bottoms and to trade restrictions. A successful solution of the problems concerning fertilizer is an essential condition of sustained agrarian activities and stability in the economic life of the rural communities. This solution must begin with the supply and distribution of sulphate of ammonia, which is the most important fertilizer, at reasonable prices by a suitable agency, under the Government's special supervision (Article 1). Further measures will be taken by the Government in accordance with orders issued under this Law (Article 2). The effective date for this Law will be fixed by Imperial Ordinance. The Law shall be annulled within one year after the cessation of the China Affair (Addenda).

Law Concerning Temporary Emergency Measures on Exports and Imports

(Law No. 92, 1937, Promulgated on and Enforced since September 10th)

With the development of the China Affair, enormous quantities of goods will be required for military and defence purposes. To ensure an abundant

and smooth supply of these materials and articles, it is imperative, in view of the actual condition of national resources, that exports should be restricted and imports controlled more or less not only in the case of those materials and articles which are comparatively unnecessary or less urgently needed but also even where they are needed for industrial purposes. The Government is, accordingly, empowered, when deemed necessary, to prohibit or restrict exports or imports of goods in accordance with the provisions of this Law (Article 1).

As it is possible that the application of these emergency measures may entail a sharp rise in the prices or uncertainty in the supply of the materials and articles affected by the legislation, the Government is empowered to take such remedial steps as are deemed advisable. This will enable the Government, in pursuance of the orders to be issued under this Law, to do the necessary in regard to the production of articles having as their materials the goods just mentioned, or in regard to restricting their manufacture, or to issuing orders concerning the distribution, transfer, employment or consumption of the said goods or of manufactures having these goods for their materials (Article 2). This Law shall be annulled within one year after the cessation of the China Affair (Addenda).

Temporary Shipping Control Law

(Law No. 25, 1937, promulgated on September 10th)

The importance of shipping is greatly enhanced in extraordinary times like the present. In fact, with the aggravation of the situation, the shortage in ships' space has become more and more pronounced; the Government has seen fit to take the situation in hand. For the purpose of adjusting the supply and demand of shipping space for coastal services, special permits will be granted to foreign vessels and to ships registered in the Kwantung Province to engage in coastal trade in this country. At the same time, it is expected that self-regulation in the shipping industry will lead to a rationalization of shipping business, obviating thereby any violent rise in freight rates. It must be said in fairness that due to the united efforts of shipping interests, the industry has always remained true to its own mission. The present Law aims to prevent any hindrances to national economy and defence that may possibly arise out of the present emergency. The Law prescribes that approval of the authorities is necessary for selling, chartering, mortgaging or transfering Japanese vessels to parties who are not entitled to own Japanese vessels (Article 3).

Regulations for importation of foreign vessels have been rendered easier. For, whereas it has hitherto been the rule to limit such ships to those under five years of age and with a speed of not less than 13½ knots, now matters of age and speed are considered generally with reference to vessels built after the World War (Article 14). The Government may impose restrictions on ships' routes, and may, after deliberations by the Shipping Control Committee to be created by Imperial Ordinance, issue orders concerning matters of freight and charter rates, and prices of vessels (Article 7). The Govern-

ment is further empowered to issue orders concerning the building of ships, including the matter of priority : for instance, the building of excursion boats may not come before the construction of certain other vessels (Article 8), and the Government may cause separate regulations to be issued concerning the qualifications of the ships commissioned to routes subsidized under the Law concerning the Subsidies for Operating Distant Routes. Also separate regulations will be issued by orders concerning the number and the licences of officers and crew to be taken aboard a ship (Article 12).

This Law is expected to be enforced on October 1st, and the Law shall be annulled within one year after the cessation of the China Affair (Addenda).

Law in Respect to the Application of the War Requirements Industry Mobilization Law for the China Affair

(Law No. 88, 1937, Promulgated on and Enforced since September 10, 1937)

The War Requirements Industry Mobilization Law (Law No. 38 of 1918) empowers the Government, for the purpose of keeping supplies of requirements of war in proper condition during times of war, to take such measures as are necessary for the efficient operation of the more important branches of the industry. With this end in view, the Government may take control, use, or requisition the whole or part of the factories, undertake speedy replenishment of labour, or issue orders for the distribution and supply of materials of the industry and of fuel. Inasmuch as the China Affair urgently requires large supplies of war requirements for the Army and Navy, the War Requirements Industry Mobilization Law has come to be applied afresh to the present situation.

Temporary Law Restricting Movement of Horses

(Law No. 89, 1937, Promulgated on September 10th)

The object of this Law is to obviate any hindrances in the requisition of horses in connection with the China Affair. The Law was enforced on September 18th by Imperial Ordinance.

Law Concerning Reduction, Exemption, and Postponement of Payment of Taxes for Soldiers and other Persons Serving in the China Affair

(Law No. 94, 1937, Promulgated on and Enforced since September 13)

Under this Law the Class-C income tax, namely tax for earned income, and the land and business profit taxes, payable by soldiers or other persons serving in the China Affair shall, in accordance with the orders, either be reduced, remitted, or payment permitted to be postponed.